

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Great Northern Utilities, Inc.	:		
	:		
Proposed general increase in water rates. (Tariffs filed on December 22, 2010)	:	11-0059	REHEARING
	:		
Camelot Utilities, Inc.	:		
	:		
Proposed general increase in water and sewer rates. (Tariffs filed December 30, 2010)	:	11-0141	REHEARING
	:		
Lake Holiday Utilities Corporation	:		
	:		
Proposed general increase in water rates. (Tariffs filed December 30, 2010)	:	11-0152 (Cons.)	REHEARING

**DIRECT TESTIMONY OF SCOTT J. RUBIN**

**ON BEHALF OF**

**PEOPLE OF THE STATE OF ILLINOIS**

**AG EXHIBIT 3.0 ON REHEARING**

DATED FEBRUARY 10, 2012

1   **Q.    Please state your name and business address.**

2    A.    My name is Scott J. Rubin. My business address is 333 Oak Lane, Bloomsburg, PA.

3   **Q.    By whom are you employed and in what capacity?**

4    A.    I am an independent consultant and an attorney. My practice is limited to matters  
5       affecting the public utility industry.

6   **Q.    What is the purpose of your testimony in this case?**

7    A.    I have been asked by the Office of the Attorney General (“AG”) to assess the options to  
8       alleviate rate shock associated with the revenue increases allowed Great Northern  
9       Utilities, Inc., Camelot Utilities, Inc. and Lake Holiday Utilities Corp., all owned and  
10      operated by Utilities, Inc. (“UI”).

11   **Q.    What are your qualifications to provide this testimony in this case?**

12   A.    I have testified as an expert witness before utility commissions or courts in the District of  
13      Columbia, the province of Nova Scotia, and in the states of Arizona, California,  
14      Connecticut, Delaware, Kentucky, Illinois, Maine, Maryland, New Hampshire, New  
15      Jersey, New York, Ohio, Pennsylvania, and West Virginia. I also have testified as an  
16      expert witness before two committees of the U.S. House of Representatives and one  
17      committee of the Pennsylvania House of Representatives. I also have served as a  
18      consultant to the staffs of the Connecticut Department of Public Utility Control and the  
19      Delaware Public Service Commission, as well as to several national utility trade  
20      associations, and state and local governments throughout the country. Prior to  
21      establishing my own consulting and law practice, I was employed by the Pennsylvania  
22      Office of Consumer Advocate from 1983 through January 1994 in increasingly  
23      responsible positions. From 1990 until I left state government, I was one of two senior

24 attorneys in that Office. Among my other responsibilities in that position, I had a major  
25 role in setting its policy positions on water and electric matters. In addition, I was  
26 responsible for supervising the technical staff of that Office. I also testified as an expert  
27 witness for that Office on rate design and cost of service issues.

28 Throughout my career, I developed substantial expertise in matters relating to the  
29 economic regulation of public utilities. I have published articles, contributed to books,  
30 written speeches, and delivered numerous presentations, on both the national and state  
31 level, relating to regulatory issues. I have attended numerous continuing education  
32 courses involving the utility industry. I also periodically participate as a faculty member  
33 in utility-related educational programs for the Institute for Public Utilities at Michigan  
34 State University, the American Water Works Association, and the Pennsylvania Bar  
35 Institute.

36 **Q. Do you have any experience that is particularly relevant to the issues in this case?**

37 A. Yes, I do. I have testified on numerous occasions as a rate design and cost of service  
38 expert. I also have worked as a consultant to local government entities on rate design  
39 issues – both to assist government-owned utilities in designing rates and to help  
40 government agencies obtain reasonable rates from their utility. I also served on the  
41 editorial committee for the preparation of the major rate design manual for the water  
42 utility industry, the American Water Works Association's Manual M1: *Principles of*  
43 *Water Rates, Fees, and Charges*, published in 2000. In addition, during 2004 I provided  
44 technical assistance, training, and analysis for the staff of the Connecticut Department of  
45 Public Utility Control on rate design, cost allocation, and related issues.

In the water and wastewater sectors, I have testified on public policy, rate design, and cost of service issues in numerous rate cases involving utilities that serve multiple rate areas, including Pennsylvania-American Water Company, Aqua Pennsylvania Inc., Illinois-American Water Company, Aqua Illinois, California-American Water Company, and Aquarion Water Company of Connecticut.

**Q. What is the focus of your testimony?**

A. My testimony supplements the Direct Testimony on Rehearing of Michael L. Brosch, who proposes a phase-in plan that gradually phases in the large increases resulting from the increased revenue requirement approved in this docket. I will address a statewide approach to exploring other rate mitigation options to manage the revenue increases for the utilities in this case, as well as other UI utilities in Illinois. Specifically, I have concluded that the Commission should open a separate investigation into other rate mitigation options that may be available from full or partial consolidation of UI's 23 operating areas in Illinois, taken from Commission records. (For ease of reference, I have attached as AG Exhibit 3.1 a list of those utilities.) In my opinion, a full investigation into UI's entire Illinois system is necessary to determine whether it is possible to mitigate the rate shock apparent in this and other recent UI cases in a way that is fair to both the utility and UI's Illinois consumers.

**Q. What documents have you reviewed in this consolidated docket?**

A. I have reviewed the Commission's rate order allowing the following revenue increases:

- |                                    |                                    |
|------------------------------------|------------------------------------|
| (1) Great Northern Utilities, Inc. | 251.72% increase in water revenues |
| (2) Camelot Utilities, Inc.        | 212.61% increase in water revenues |

68 (3) Camelot Utilities, Inc. 88.20% increase in sewer revenues

69 (4) Lake Holiday Utilities Corporation 48.00% increase in water revenues.

70 ICC Docket 11-0059/0141/0142 consol., Final Order, Apps. A, B, C, and D.

71 **Q. Please summarize your conclusions and recommendations.**

72 A. My conclusions can be summarized as follows:

73 • I conclude that some of the increases in revenue requirements authorized  
74 by the Commission in this case would lead to extraordinarily large  
75 increases in customers' bills.

76  
77 • I recommend that the Commission initiate an investigation into UI's  
78 Illinois operations, including all operating companies, to determine  
79 whether other rate mitigation options, including rate or revenue  
80 consolidation, would be achievable and in the public interest.

81  
82 • I also recommend that the Commission direct UI to prepare and file a cost  
83 of service study for its entire Illinois operation for review and use in the  
84 investigation.

85  
86 **Q. Do you know the basis for rehearing in this docket?**

87 A. Yes. The Commission's notice of December 22, 2011, stated that rehearing was granted  
88 on "the Mitigation of Rate Shock Issue" raised by the Camelot Homeowners' Association  
89 and the People of the State of Illinois. I also have read the transcript of the Commission's  
90 discussion of rehearing at its December 21, 2011, meeting.

91 **Q. In your opinion, do any of the increases in this case raise concerns about rate shock?**

92 A. Yes. I have reviewed the allowed revenue increases stated above, as well as the rates  
93 filed by the Companies on or about September 29, 2011, in response to the ALJ's Post  
94 Record Data Request. Great Northern water customers are facing increases of more than  
95 250%, from an average monthly bill of \$21.02 to an average monthly bill of \$74.47.  
96 Camelot customers are facing extraordinary increases in both water and wastewater

service, with their average monthly water bill increasing more than 210%, from \$28.76 to \$90.10 and their average monthly wastewater bill increasing 87% from \$41.00 to \$76.85. Combined, Camelot customers will pay, on average, \$166.95 per month for water and wastewater service.

**Q. What options are ordinarily available to commissions to alleviate rate shock?**

A. The options available to alleviate rate shock vary depending on the size, structure, and customer make-up of the utility involved. When the utility is small and has a single customer class, a phase-in plan might be the only feasible option available. Where the utility is part of a larger company with other service areas in the state, however, other rate shock mitigation options may exist. For example, by looking at all of the affiliated companies, there might be economies of scale that could benefit consumers by reducing overall operating costs. Consolidation also may enable the utility to spread the costs of new facilities over a much larger customer base, potentially resulting in lower rates for customers.

**Q. How might consolidation provide opportunities to alleviate rate shock?**

A. The general concept underlying consolidation is that a large increase in the revenue requirement to serve a small group of customers can be recovered with much less of a rate burden from a very large group of customers. As a very simple example, to raise \$10,000, the annual bills for a rate area with 100 customers would need to increase by \$100 per customer. That same \$10,000 can be raised from a rate area with 50,000 customers at a cost of only 20 cents per customer. In other words, when faced with large revenue requirement increases, customers in large, consolidated rate areas with many customers might see their bills increase by a few cents per month in order to absorb

increases associated with a smaller rate area. If the small rate area were required to pay the full cost of the increase, the bill would be significantly higher due to the fewer customers involved. When properly implemented, consolidation of rates (sometimes called “single-tariff pricing” or “postage stamp pricing”) can simplify the administration of tariffs and benefit customers by spreading costs among a much larger customer base. Importantly, consolidation can help ensure the provision of affordable water service to smaller service areas without having a significant effect on the rates paid by other customers.

**Q. Does Illinois have experience with moving a major water utility toward single-tariff pricing?**

A. Yes. The Commission has been moving Illinois-American Water Company (“IAWC”) toward single-tariff pricing for many years. I have been involved in several IAWC cases during the past 15 years, so I am very familiar with the process used for that utility. IAWC produces a separate revenue requirement and a separate cost-of-service study for each area. This provides some of the information that is needed to evaluate whether it is reasonable to consolidate one or more rate areas.

**Q. Have you been involved in other Illinois cases where consolidation of rate areas was at issue?**

A. Yes. In addition to cases involving IAWC, I recently testified in Docket 11-0436 where Aqua Illinois requested that all but one of its divisions be consolidated. I also testified in Docket 10-0517 where Ameren Illinois sought to consolidate its three natural gas companies and its three electric companies. Although I generally support the goals of

consolidation and single-tariff pricing, the process of consolidating rate areas must be done with sensitivity toward the impact on customers' bills and cost of service principles.

**Q. Did you evaluate the possible benefits of consolidating the three utilities in this case into a single utility?**

A. I performed a very preliminary evaluation of such a limited consolidation option. I concluded that this was not a feasible option because the lowest-cost utility on a per-customer basis (Lake Holiday) is too small (about 2,000 customers) to cost-effectively absorb a significant portion of the costs of the other utilities. Consequently, I did not pursue this option further.

**Q. What do you recommend?**

A. In addition to providing immediate rate relief for the affected customers (such as through the adoption of AG witness Brosch's phase-in plan), I recommend that the Commission initiate an investigation into UI's system-wide cost of service, including an evaluation of possible statewide consolidation options. As part of that investigation, the Commission should direct UI to prepare and file a cost of service study for its entire Illinois operation.

**Q. Does this conclude your testimony?**

A. Yes.